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RUCNMEM/EU MEMBER STATES COLLECTIVE
RUEHAK/AMEMBASSY ANKARA 5403
RUEHBJ/AMEMBASSY BEIJING 3131
RUEHKO/AMEMBASSY TOKYO 2996
RUEHIT/AMCONSUL ISTANBUL 3647
RUCPDO/DEPT OF COMMERCE WASHDC
RHEHNSC/NSC WASHDC
RHMCSUU/CDR USCENTCOM MACDILL AFB FL
RUEAIIA/CIA WASHDC
RHEFDIA/DIA WASHDC
RUEKJCS/JOINT STAFF WASHDC
RUEKJCS/SECDEF WASHINGTON DC
RUEHVEN/USMISSION USOSCE 3695

C O N F I D E N T I A L SECTION 01 OF 02 ASHGABAT 000849

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SUBJECT: SOME INSIGHTS INTO HOW TURKMENISTAN SUPPORTS THE
MANAT

REF: A. ASHGABAT 619

[1](#)B. ASHGABAT 462

Classified By: Charge Richard Miles, reasons 1.4 (B) and (D).

[1](#)1. (SBU) SUMMARY: The cost of living in Turkmenistan has risen dramatically since exchange rate unification and redenomination, without an improvement in the standard of living. According to the International Monetary Fund and financial experts in Ashgabat, the Turkmen manat is strong due to a huge trade surplus, which is impossible to estimate because so few contracts have Letters of Credit from international banks. These financial experts say that the country will likely review the exchange rate and spending at the end of 2009. Turkmenistan is for the first time taking out loans from international financial institutions, which could point to some need for cash. However, another source says that Turkmenistan holds 120 percent of its Gross Domestic Product in foreign currency reserves, which makes it possible for Turkmenistan to continue spending at current levels indefinitely. The many variables -- and lack of information flow -- make predictions almost impossible at this time, but provide context for what could happen in the next six months. END SUMMARY.

HUGE EXPORT SURPLUS MAKES MANAT VERY STRONG

[1](#)2. (C) Since exchange rate unification and redenomination, the cost of living in Turkmenistan has noticeably risen and the manat is stronger, but the quality of life has remained the same. National Bank of Pakistan General Manager M. Rizwan Khan, and Assistant Vice Presidents Asim Nazir and Jamal Malik said in a meeting on June 23 that Turkmenistan's huge export surplus -- due to billions in annual oil and gas exports -- has resulted in a very strong manat. Members of the International Monetary Fund's Article IV Review Mission agreed with this in May 2009, and stated that Turkmenistan may have to further strengthen the manat due to the strength of the oil and gas sector (Ref A). However, Khan guessed that a managed flow exchange rate would result in a rate of four or five manat for one dollar. He also said that the official inflation rate is 12 or 13 percent, but estimates the actual inflation rate at 36 or 37 percent.

NATIONAL TRADE LEVEL UNKNOWN

¶3. (C) Various interlocutors agreed in meetings on June 23 and 24 that the government seems to be propping up the manat against the dollar by spending money from its foreign currency reserves, but no one could estimate how much money Turkmenistan is spending to prop up the rate. One method of estimating reserves and cash flow is based on estimated national trade flows. National Bank of Pakistan's Khan explained that statisticians can usually estimate national trade levels by adding together the value of transactions cited on Letters of Credit. However, he explained, the Central Bank of Turkmenistan handles financial arrangements for government contracts, and very few entities conduct trade in Turkmenistan using Letters of Credit -- therefore, trade flow information is kept from the private banking industry and no one knows for sure what Turkmenistan's trade levels are.

WHEN WILL TURKMENISTAN BE FORCED TO CUT BACK SPENDING?

¶4. (C) With the curtailment of gas exports to Russia (Ref B), little revenue is flowing into Turkmenistan. The National Bank of Pakistan representatives and Ovezmurad Agayev of Deloitte Tax's office in Turkmenistan believe that Turkmenistan may review its support of the fixed exchange rate and spending habits, in light of the reduction of gas flows to Russia, at the end of 2009. Factors include possible resumption of gas exports to Russia, assuming that Turkmenistan's receivables increase to former levels.

ASHGABAT 00000849 002 OF 002

National Bank of Pakistan's Khan added that this is logical timing for a rate review because every country reviews receivables and deliverables at the end of its fiscal year. He noted that an increase of certain imports -- especially consumer products, automobiles, construction materials, investment in capital projects, recently-announced Belarusian deals worth \$30-40 million, and investment from Iranian construction companies for projects in the Avaza Tourist Zone -- may have some but not a complete equalizing effect on the trade balance, and could necessitate a review of the exchange rate. Deloitte's Agayev said that Turkmenistan continues to receive some income from its export of gas to Iran. Still, that amounts to only about ten percent of the total volume of gas that was exported prior to the gas pipeline explosion. Agayev agreed that Turkmenistan may try to wait out a cash shortage until the end of the year, pointing out that gas should begin flowing to China at that time.

EBRD'S VIEW

¶5. (C) Head of the European Bank for Reconstruction and Development's Resident Office in Ashgabat Neil McKain said on July 2 that Turkmenistan holds 125 percent of its Gross Domestic Product in foreign currency reserves, adding that no other country in the world can boast of this. Given these reserves, the country can hold onto current spending levels for quite a long time. He suggested that government officials are concerned about their reliance on Russia and see the benefits of improving relations with other countries, hence Foreign Minister Meredov's visit to Washington on June 22-23 and other visits to Brussels.

POTENTIAL DANGER SIGNS: FIRST LOAN, SLOWING DOWN AT AVAZA

¶6. (C) Agayev noted that Turkmenistan is for the first time borrowing money from a foreign lender: USD four billion from China to develop onshore fields in Yolotan -- which may include a clause for the use of Chinese equipment -- but could also be a warning sign of a shortage of foreign reserves. Turkmenistan Airlines employees have informed Boeing Sales Representative Serdar Gurz that the airline has not signed a contract for new aircraft, pending since March, because it is waiting for an influx of money from an Islamic

Development Bank loan. Agayev hypothesized that the government might be stalling development of the Avaza Tourism Zone because of a cash shortage: the government recently signed only three contracts for Avaza projects and is behind on the development of the area. Anecdotal evidence also points to cash flow problems: Kekilova mentioned that her husband had to leave his job at a local construction company, because the government is behind on making payments, and the company owed him three months in back pay. (NOTE: Post has regularly heard for the past year that Turkmenistan is behind on payments for a variety of construction projects, such that this is the norm rather than the exception. END NOTE.)

17. (C) COMMENT: Khan's judgment that a floating manat would be much less strong than the fixed rate was most likely based on the premise that consumer confidence also plays a role in exchange rates, regardless of Turkmenistan's ability to prop the manat using foreign currency reserves. It is too early to predict how much gas Turkmenistan will be able to send to China at the end of 2009 -- if, of course, the pipeline is ready and functional at that time. Even a trickle of gas flowing would increase receivables, which the government would welcome. However, the many variables -- and lack of information flow -- make predictions almost impossible at this time. END COMMENT.
MILES